

FITCH AFFIRMS HELABA'S MORTGAGE PFANDBRIEFE AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-Frankfurt/London-23 April 2018: Fitch Ratings has affirmed Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Stable/F1+) outstanding mortgage Pfandbriefe at 'AAA' with a Stable Outlook.

KEY RATING DRIVERS

The 'AAA' rating of the covered bonds is based on Helaba's Long-Term Issuer Default Rating (IDR) of 'A+', an IDR uplift of two notches, a two-notch recovery uplift and the overcollateralisation (OC) Fitch relies upon of 30.1%, which provides more protection than the 'AAA' breakeven OC of 17.0%. The Stable Outlook on the rating reflects a four-notch buffer against an IDR downgrade due to the different uplift factors above the bank's IDR.

The breakeven OC rose to 17.0% (up from 16.5%) reflecting an increased asset liability maturity mismatch. It is now driven by the 'AAA' credit loss component of 17.1%. The credit loss decreased slightly as stressed recovery rates on the US sub-portfolio improved following higher rental income yields while loan-to-value ratios remained stable. The share of German assets, generally associated with lower loss rates, further decreased by 4pp preventing a higher reduction of the modelled credit loss.

The programme's rating is now based on the 'AA' rating floor and two-notch recovery uplift. This rating composition provides the lowest protection needed for the 'AAA' rating. Previously it was based on a 'AA+' rating on a tested probability of default (PD) basis and one-notch recovery uplift.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if Helaba's IDR is downgraded to 'BBB-' or below; or (ii) the combined number of notches represented by the IDR uplift and the payment continuity uplift is reduced to one or lower; or (iii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 17.0%. If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 0%, the rating would likely be downgraded to 'AA+'.

The Fitch breakeven OC for the covered bond rating will be affected, among others, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

Contact:

Primary Analyst

Timo Dums

Associate Director

+49 69 768076 132

Fitch Deutschland GmbH

Neue Mainzer Str. 46-50

D-60311 Frankfurt am Main

Secondary Analyst

Thomas Kaber

Associate Director

+49 69 768076 172

Committee Chairperson
Rebecca Holter
Senior Director
+49 69 7680 76 261

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023430>

Commercial Real Estate Loans Securing Covered Bonds Rating Criteria (pub. 21 Nov 2017)

<https://www.fitchratings.com/site/re/906003>

Covered Bonds Rating Criteria (pub. 02 Mar 2018)

<https://www.fitchratings.com/site/re/10021721>

EMEA CMBS and CRE Loan Rating Criteria (pub. 15 Feb 2018)

<https://www.fitchratings.com/site/re/10019872>

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 02 Feb 2018)

<https://www.fitchratings.com/site/re/10018863>

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017)

<https://www.fitchratings.com/site/re/10008156>

SME Balance Sheet Securitisation Rating Criteria (pub. 23 Feb 2018)

<https://www.fitchratings.com/site/re/10020825>

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017)

<https://www.fitchratings.com/site/re/898537>

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017)

<https://www.fitchratings.com/site/re/898538>

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017)

<https://www.fitchratings.com/site/re/903496>

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018)

<https://www.fitchratings.com/site/re/10018549>

U.S. and Canadian Multiborrower CMBS Rating Criteria (pub. 05 Jan 2018)

<https://www.fitchratings.com/site/re/914172>

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